

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND**

AUDIT REPORT

Fiscal Year Ended June 30, 2017



State of South Dakota
Department of Legislative Audit
427 South Chapelle
% 500 East Capitol
Pierre, SD 57501-5070

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Economic Development

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Revolving Economic Development and Initiative Fund (REDI Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the REDI Fund's basic financial statements and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Dakota Board of Economic Development's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Dakota Board of Economic Development's internal control. Accordingly, we do not express an opinion on the effectiveness of South Dakota Board of Economic Development's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Dakota Board of Economic Development's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

September 28, 2017



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

South Dakota Board of Economic Development

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Revolving Economic Development and Initiative Fund (REDI Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the REDI Fund, an enterprise fund of the State of South Dakota, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the REDI Fund and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017 on our consideration of the South Dakota Board of Economic Development's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Dakota Board of Economic Development's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Board of Economic Development's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

September 28, 2017

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF NET POSITION
June 30, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2.C.)	\$	77,181,288
Accounts Receivable – Bankwest		28,327
Loan Interest Receivable		29,394
Investment Income Receivable		254,163
Loans Receivable (Net) (Note 2.E.)		2,569,624
Total Current Assets		80,062,796

Noncurrent Assets:

Noncurrent Portion of Loans Receivable (Net) (Note 2.E.)		34,489,825
Total Noncurrent Assets		34,489,825

TOTAL ASSETS		114,552,621
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources-Related to Pensions		128,507
TOTAL DEFERRED OUTFLOWS OF RESOURCES		128,507

LIABILITIES

Current Liabilities:

Accounts Payable		11,178
Wages Payable		27,443
Accrued Leave Liability (Note 5)		13,359
Due to Other Funds		8,279
Total Current Liabilities		60,259

Noncurrent Liabilities:

Net Pension Liability		52,408
Noncurrent Portion of Accrued Leave Liability (Note 5)		11,762
Total Noncurrent Liabilities		64,170

TOTAL LIABILITIES		124,429
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources-Related to Pensions		858
TOTAL DEFERRED INFLOWS OF RESOURCES		858

NET POSITION

Restricted for South Dakota Jobs Grant Program		1,964,443
Restricted for Pension Benefits		75,241
Unrestricted		112,516,157
		112,516,157

TOTAL NET POSITION	\$	114,555,841
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The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

Operating Revenue:	
Interest Income on Loans	\$ 764,160
Other Income	47,381
Total Operating Revenue	<u>811,541</u>
Operating Expenses:	
Personal Services and Benefits	285,363
Travel	5,734
Contractual Services	246,884
Supplies and Materials	13,698
Total Operating Expenses	<u>551,679</u>
Operating Income	259,862
Nonoperating Revenue (Expenses):	
Investment Income	298,479
Services Provided to Others (Note 2.F.)	(194,903)
Other Expenses	(15,539)
Total Nonoperating Revenue (Expenses)	<u>88,037</u>
Income Before Transfers	347,899
Transfers:	
Transfers In – Building South Dakota (Note 2.H.)	68,174
Total Transfers	<u>68,174</u>
Change in Net Position	416,073
Beginning Net Position	<u>114,139,768</u>
End of Year Net Position	<u>\$ 114,555,841</u>

The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

Cash Flows From Operating Activities:		
Receipts for Loan Repayments	\$ 7,920,552	
Payments for Loans Originated	(4,566,057)	
Receipts from Customers and Users	47,381	
Payments for Employee Services and Benefits	(252,959)	
Payments for Interfund Services Used	(64,077)	
Payments to Suppliers and for Claims	(202,509)	
Net Cash Provided (Used) by Operating Activities		2,882,331
Cash Flows From Noncapital Financing Activities:		
Building South Dakota Funds - Decrease in Due From	500,000	
Transfers In – Building South Dakota Funds	68,174	
Services Provided to Others	(194,903)	
Net Cash Provided (Used) by Noncapital Financing Activities		373,271
Cash Flows From Investing Activities:		
Pooled Investment Income	253,455	
Investment Costs	(15,539)	
Net Cash Provided (Used) by Investing Activities		237,916
Net Increase in Cash and Cash		
Equivalents During the Fiscal Year		3,493,518
Cash and Cash Equivalents at Beginning of Year		
		73,687,770
Cash and Cash Equivalents at End of Year		\$ 77,181,288
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$	259,862
Decrease/(Increase) in Assets:		
Loans Receivable	2,549,684	
Loan Interest Receivable	1,044	
Accounts Receivable – Bankwest	39,607	
Net Pension Asset	78,246	
Decrease/(Increase) Deferred Outflows of Resources:		
		15,051
Increase/(Decrease) in Liabilities:		
Accounts Payable	(623)	
Wages Payable	(590)	
Net Pension Liability	52,408	
Accrued Leave Liability	2,896	
Due to Other Funds	353	
Increase/(Decrease) Deferred Inflows of Resources:		
	(115,607)	
Total Adjustments		2,622,469
Net Cash Provided (Used) by Operating Activities		\$ 2,882,331

The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

1. AUTHORIZING LEGISLATION

The South Dakota Revolving Economic Development and Initiative Fund (REDI Fund) was created in 1987 by an act of the South Dakota Legislature. The REDI Fund was established for the purpose of making loans for economic development. The REDI Fund is a fund of the State of South Dakota and is administered by the Governor's Office of Economic Development (GOED) with oversight provided by the Board of Economic Development.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The REDI Fund is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. The REDI Fund is a part of the State of South Dakota and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

B. Basis of Accounting

The REDI Fund follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings and services provided to others, are reported as nonoperating.

C. Cash and Investments

Cash includes cash on hand and a participating interest in the State's internal investment pool held by the State Treasurer and is used for the purposes of reporting cash flows. The amount held in the State's internal investment pool is reported at fair value.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by writing to the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501 or by calling (605)773-3595.

D. Capital Assets

Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or estimated historical cost, if the original cost is unavailable. Equipment is capitalized when the cost of

individual items is \$5,000 or more. Depreciation on capital assets is computed using the straight line method over the estimated useful lives of the assets, which is 3 to 10 years for all assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal. Equipment valued at \$14,400 was considered fully depreciated at year-end.

E. Loans Receivable

Loans receivable at June 30, 2017, is shown net of the allowance for doubtful loans of \$875,941.

F. Services Provided to Others

Earnings on the REDI Fund may be used for the administrative costs of the Division of Finance of the GOED per SDCL 1-16G-24. Earnings used for the administrative costs of the Division of Finance of the GOED totaled \$194,903 for the year ending June 30, 2017.

G. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

H. Transfers

The legislature designated contractor's excise taxes and interest from Building South Dakota projects costing \$20 million or more to be transferred to the Building South Dakota Funds per the 2013 legislative session. An amount of \$68,174 was transferred in for the year ending June 30, 2017 for the South Dakota Jobs portion of the designated funds.

I. Pension Reporting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Contributions and net pension liability are recognized on an accrual basis of accounting.

J. Net Position

Net Position is classified in the following three components:

- Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.
- Restricted – Consists of net position with constraints placed on their use by (1) bond indentures and (2) law through enabling legislation.
- Unrestricted – Consists of net position that does not meet the definition of net investments in capital assets or restricted.

K. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the REDI Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

3. SOUTH DAKOTA JOBS GRANT PROGRAM ACTIVITY

During the 2013 legislative session, the South Dakota Jobs Grant Program was created within the REDI Fund. An original deposit of \$350,000 was deposited in the fiscal year ending June 30, 2013. The Board of Economic Development may provide grants to project owners for new or expanded facilities with project costs less than \$20,000,000 or for equipment upgrades with project costs less than \$2,000,000.

The following is a breakdown of the activity in the subfund for fiscal year 2017 and its corresponding restricted net position at June 30, 2017:

	South Dakota Jobs Subfund
Beginning Net Position	\$ 1,878,972
Transfer in – Building South Dakota	68,174
Investment Income	17,297
Ending Net Position	<u>\$ 1,964,443</u>

4. COMMITMENTS

At June 30, 2017, the REDI Fund had the following commitments:

REDI Fund loans approved by the South Dakota Board of Economic Development but not disbursed at June 30, 2017	\$ 7,771,506
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5. ACCRUED LEAVE LIABILITY

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$25,121 at June 30, 2017, is shown as short and long-term liabilities on the Statement of Net Position.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued Leave Liability	\$ 22,225	\$ 37,702	\$ 34,806	\$ 25,121	\$ 13,359

6. RETIREMENT

The GOED participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information for the plan. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731. Additionally, the State of South Dakota's Comprehensive Annual Financial Report (CAFR) will report the State's proportionate share of the plan. The CAFR can be obtained by writing to the Department of Legislative Audit, 427 South Chappelle, c/o 500 East Capitol, Pierre, South Dakota 57501 or by calling (605)773-3595.

State law requires employees to contribute 6 percent of their salary to the plan and the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The GOED's contributions to the SDRS for the fiscal years ended June 30, 2017, 2016, and 2015 were \$21,585, \$18,967, and \$21,401, respectively, equal to the required contributions each year.

At June 30, 2016, SDRS is 96.9% funded and accordingly has a net pension liability. At June 30, 2017, the GOED reported a liability of \$52,408 for the REDI Fund's proportionate share of the net pension liability. At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the pension were reported from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 18,245	\$
Changes of assumption	31,390	
Net difference between projected and actual earnings on pension plan investments	58,296	
Contribution after the measurement date	20,346	
Changes in proportionate share	230	858
Total	<u>\$ 128,507</u>	<u>\$ 858</u>

7. RISK MANAGEMENT

The GOED is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The GOED participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating

entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund, and 5) coverage for property loss through the South Dakota Property and Casualty Insurance Company, LLC. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.